

IRS TAX TIP 2004-46

CHILD TAX CREDIT

With the Child Tax Credit, you may be able to reduce the federal income tax you owe by \$1,000 for each qualifying child under the age of 17, according to the IRS. A qualifying child for this credit is someone who:

- Is claimed as your dependent,
- Was under age 17 at the end of 2003,
- Is your son, daughter, adopted child, grandchild, stepchild or eligible foster child, your sibling, stepsibling or their descendant, and
- Is a U.S. citizen or resident.

The credit is limited if your modified adjusted gross income is above a certain amount. The amount at which this phase-out begins varies depending on your filing status:

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| – Married Filing Jointly | \$110,000 |
| – Married Filing Separately | \$ 55,000 |
| – All others | \$ 75,000 |

In addition, the Child Tax Credit is limited by the amount of the income tax you owe as well as any alternative minimum tax you owe. For example, if the amount of the credit is \$600, but the amount of your income tax is \$500, the credit ordinarily will be limited to \$500.

However, there are two exceptions to this general rule. If the amount of your Child Tax Credit is greater than the amount of income tax you owe, you may be able to claim some or all of the difference as an "additional" Child Tax Credit. First, you may claim up to 10 percent of the amount by which your earned income exceeds \$10,500. Second, if you have three or more qualifying children, you may claim up to the amount of Social Security taxes you paid during the year, minus any Earned Income Tax Credit you receive. If you qualify under both these exceptions, you receive the greater of the two amounts, up to the difference between your tax liability and your regular Child Tax Credit. Use Form 8812 to figure the additional Child Tax Credit.

For 2003, the total amount of the Child Tax Credit and any additional Child Tax Credit cannot exceed the maximum of \$1,000 for each qualifying child. If you received part of the credit as an advance payment in 2003, you must reduce the amount of Child Tax Credit you claim for 2003 by the amount of the advance payment.

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To be sure of using the correct figures, advance payment recipients can find the amount they received on IRS Notice 1319, which they should have received just before the payment checks. Those who don't have this notice can get the amount by visiting the IRS Web site at www.irs.gov and clicking on "1040 Central" or "Your 2003 Advance Child Tax Credit."

Taxpayers claiming the Child Tax Credit who did not receive an advance payment will get their entire benefit from the credit on their returns.

Individuals entitled to receive the Child Tax Credit and additional child tax credit may also be eligible to receive the Child and Dependent Care Credit and the Earned Income Tax Credit.

You may claim the Child Tax Credit on Form 1040 or 1040A. Details on how to compute the credit can be found in the forms' instructions and in Publication 972, "Child Tax Credit." The forms and publications are available from the IRS Web site at www.irs.gov or by calling toll free 1-800-TAX-FORM (1-800-829-3676).

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